

Miles for Nothing: How the Government Helped Frequent Fliers Make a Mint --- Free Shipping of Coins, Put on Credit Cards, Funds Trip to Tahiti; 'Mr. Pickles' Cleans Up

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Enthusiasts of frequent-flier mileage have all kinds of crazy strategies for racking up credits, but few have been as quick and easy as turning coins into miles.

At least several hundred mile-junkies discovered that a free shipping offer on presidential and Native American \$1 coins, sold at face value by the U.S. Mint, amounted to printing free frequent-flier miles. Mileage lovers ordered more than \$1 million in coins until the Mint started identifying them and cutting them off.

Coin buyers charged the purchases, sold in boxes of 250 coins, to a credit card that offers frequent-flier mile awards, then took the shipments straight to the bank. They then used the coins they deposited to pay their credit-card bills. Their only cost: the car trip to make the deposit.

Richard Baum, a software-company consultant who lives in New Jersey, ordered 15,000 coins. "I never unrolled them," he says. "The UPS guy put them directly in my trunk."

Patricia Hansen, a San Diego retiree who loves to travel, ordered \$10,000 in coins from the Mint. "My husband took them to the bank," Ms. Hansen says, and she earned 10,000 miles toward free or upgraded travel.

That's small change compared with what some mile collectors did. The coin program was a popular play on FlyerTalk.com, an online community where frequent travelers and mileage mavens share travel tips and profitable mileage plays. One FlyerTalker, identified by his online moniker, Mr. Pickles, claims to have bought \$800,000 in coins. He posted pictures of the loot on FlyerTalk.

He says his largest single deposit was \$70,000 in \$1 coins. He used several banks and numerous credit cards. He earned enough miles to put him over two million total at AMR Corp.'s American Airlines, giving him lifetime platinum-elite status -- early availability of upgrades for life and other perks on American and its partners around the world. He also pumped miles into his account at UAL Corp.'s United Airlines and points into his Starwood Preferred Guest program account.

A spokesman for the Mint says it has no record of anyone purchasing that many coins, but orders could have been shipped to different names and addresses.

Another FlyerTalk member used the coin program to help earn a free two-week trip to Tahiti that he took with his wife at the end of October. He worked hotel, airline and credit-card programs carefully to pull together the rewards he wanted.

The allure of frequent-flier miles, which were introduced by American in 1981, was that they offered something for nothing. The miles rewarded loyalty and proved to be an extremely powerful marketing tool.

Now, airlines have turned miles into more than a competitive device; they have become a currency that airlines can sell, usually at less than a penny a mile, to other merchants to generate revenue. More miles are put into circulation by companies – including credit-card issuers, hotels, mortgage servicers, and florists – than are given to travelers for flights.

The mile is such a cherished commodity that airlines have even bolstered their balance sheets by preselling billions of miles. Citigroup Inc., which gives away American AAdvantage miles to credit-card customers, agreed to lend American \$1 billion in September. The loan is to be repaid between 2012 and 2016 – not in cash but in miles.

Pushing miles into everyday commerce has created unique opportunities for mileage addicts. For many, chasing miles is a way to vastly improve their travel. Accumulate enough miles to land elite status, and you get early boarding, better seat selection, access to upgrades, premium check-in and security lines, and sometimes use of fancy airport lounges on international trips. It goes far beyond just tallying miles for free tickets.

Landing those free tickets has gotten more expensive in recent years as airlines have pushed the number of miles required for many trips higher and as they have added fees and co-payments to some awards. Consumers are often frustrated as well by difficulty in getting the trips they want on the dates they want since airlines restrict availability of award seats. But the airline mile remains a potent perk that consumers chase around the world.

Even with all the offers that are available, the deal the Mint offers – free miles without spending any dollars – is unique. The Mint says the dollar-coin free-shipping offer began in June 2008. About \$130 million in coins have been issued to 40,000 buyers, mostly coin collectors, community banks and small businesses such as vending-machine companies and car washes.

The Mint says it costs, on average, about \$3 to ship each 250-coin box. So \$10,000 in coins would be 40 boxes, or \$120 in shipping. As for credit-card costs to the government, a Treasury Department agency handles all government credit-card transactions and negotiates costs. No particular credit-card expense is charged to the Mint, a spokesman says.

In late August and September, officials noticed a sharp uptick in "large repetitive orders" from a group of individuals, Mint spokesman Tom Jurkowsky says. At about the same time, the Mint received reports from banks around the country that coins were being deposited that were still in their U.S. Mint boxes, he says.

Officials found Internet chat rooms where the coins-for-miles scheme was detailed. Letters were sent to customers asking whether their intended use complied with the program's purpose. Customers who didn't respond were blocked from the program, Mr. Jurkowsky says. Fewer than 400 buyers were blocked, he says.

"Is this illegal? No. Is it the right thing to do? No, it's not what the program is intended to do," Mr. Jurkowsky says.

Dollar coins save the country money because they can last 30 years or more and can be recycled, the Mint says. A paper dollar in circulation lasts only about 21 months, says the U.S. Bureau of Engraving and Printing. The free-shipping program is meant to put more coins into day-to-day use.

The Mint has added a warning to its Web site that credit-card companies could consider the purchases cash-equivalent transactions not eligible for miles, and Mint officials plan to contact credit-card issuers "to try to implement a solution," he says.

Mileage fanatics say merchants and hotel programs can be an excellent way to supplement frequent-flier accounts.

Hyatt Hotels Corp. currently offers its Gold Passport program members a free night for every two nights at one of the chain's properties through Jan. 31. The free nights come with no blackout dates but have to be used by March 31. Charles Witt, a facilities planner in Washington, D.C., stopped by a suburban Hyatt Place hotel on his way home from work several times this fall, swiped his credit card to buy a \$50 room and went home, never opening the door to the hotel room.

For every \$100 he spent, he got a free night at any Hyatt. He booked three free nights at the Grand Hyatt in Tokyo over New Year's -- rooms that would have cost him \$600 a night.

"Once you start on this road, it's very hard to get off," says Mr. Witt.

Hyatt says the promotion is meant to engender loyalty, and most customers use it more traditionally, collecting free nights for regular stays. But the company welcomes people so passionate about its hotels that they'll go to elaborate lengths to stay at Hyatt.

"We don't discourage that," says Jeff Zidell, vice president of Hyatt's Gold Passport program. "There are those extremists in whatever business you're in who do what they can to get the most out of it."